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FOR ASSISTANT SECRETARY HOLBROOKE FROM AMBASSADOR MASTERS

E.O. 11652: GDS

TAGS: OVIP (MONDALE, WALTER F.), MASS, EAID, PEPR, ID

SUBJECT: RECOMMENDED FOLLOW-UP TO VICE PRESIDENT MONDALE'S VISIT
TO INDONESIA

1. THE VICE PRESIDENT, AS WELL AS YOU AND THE OTHER MEMBERS
OF HIS PARTY, WILL HAVE YOUR OWN VIEWS ON WHAT NEXT STEPS ARE
DESIRABLE AND POSSIBLE TO CAPITALIZE ON WHAT FROM OUR STANDPOINT
WAS AN EXTREMELY SUCCESSFUL VISIT TO INDONESIA. I OFFER THE
FOLLOWING THOUGHTS, REFLECTING MY OWN VIEWS AND THOSE OF THE
COUNTRY TEAM, ON WHAT WE THINK FROM A JAKARTA PERSPECTIVE WOULD
ACCOMPLISH THIS OBJECTIVE.

2. A PROMPT AND POSITIVE FOLLOW-UP ON THE PRINCIPAL ISSUES
DISCUSSED BY VICE PRESIDENT MONDALE AND PRESIDENT SUHARTO IS
IMPORTANT IF WE ARE TO BUILD ON THE CONFIDENCE AND GOODWILL
ESTABLISHED DURING THE VICE PRESIDENT'S VISIT. THERE IS A
WIDESPREAD (AND PARTLY JUSTIFIABLE) BELIEF WITHIN THE TOP
INDONESIAN LEADERSHIP THAT COMMITMENTS MADE BY THE PREVIOUS
ADMINISTRATION DURING HIGH LEVEL VISITS WERE NOT FULLY HONORED.
SKEPTICISM IS THEREFORE LIKELY TO SURFACE RAPIDLY IF THERE IS
A LAPSE IN THE NEWLY GAINED MOMENTUM TO RESOLVE KEY PROBLEMS IN
OUR BILATERAL RELATIONSHIP.

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3. MILITARY MODERNIZATION. SUHARTO'S REQUEST FOR AN ADDITIONAL
\$45 MILLION IN FMS CREDITS IS UNDOUBTEDLY THE MOST IMPORTANT
AND THE MOST DIFFICULT ISSUE WE FACE.

A. WHILE WE ARE NOT YET PRIVY TO THE CALCULATIONS WHICH LED
TO THE \$45 MILLION FIGURE, SUHARTO WOULD SEEM TO BE ENVISAGING

RELATIVELY MODEST EQUIPMENT ACQUISITIONS. THE MILITARY PURCHASES SPECIFICALLY MENTIONED BY SUHARTO IN HIS DISCUSSION WITH THE VICE PRESIDENT (THE ALREADY APPROVED F-5 AIRCRAFT, ONE SQUADRON OF A-4 AIRCRAFT AND AN M-16 COPRODUCTION FACILITY) WOULD BY OUR CALCULATIONS ENTAIL A MINIMUM OUTLAY OF \$176 MILLION. WHEN MATCHED AGAINST PROPOSED/PROJECTED FMS CREDIT THROUGH FY 80 OF \$133.1 MILLION (FY RESIDUAL \$13.1 MILLION; FY 78 OFFERED \$40 MILLION; FY 79 PROPOSED \$40 MILLION; AND FY 80 PROJECTED \$40 MILLION) THESE PURCHASES WOULD LEAVE A SHORTFALL APPROXIMATELY SUHARTO'S FIGURE. IF WE ADD OTHER ITEMS NOT MENTIONED BY SUHARTO BUT HIGH ON THE INDONESIAN LIST OF PRIORITIES PREVIOUSLY PRESENTED TO US (M-113 PERSONNEL CARRIERS, SURVEILLANCE RADAR AND FOUR ADDITIONAL F-5S), THE SHORT-FALL WOULD BE APPROXIMATELY \$100 MILLION.

B. THE COUNTRY TEAM AND I BELIEVE IT IS EXTREMELY IMPORTANT THAT SOME WAY BE FOUND TO MEET SUHARTO'S FIGURE OF \$45 MILLION ADDITIONAL FMS TO PERMIT OVER THE NEXT THREE FISCAL YEARS THE PURCHASE OF EQUIPMENT WE FIRMLY BELIEVE THEY NEED AND WHICH WE HAVE PUBLICLY ENDORSED. IF, AS WE STRONGLY SUSPECT, ADDITIONAL FY 78 FUNDS CANNOT BE MADE AVAILABLE, THE PROBLEM AS WE SEE IT IS TO REDUCE TO A MINIMUM THE FRONT END LOAD OF SCHEDULES OF PAYMENT WHICH WOULD PERMIT EARLY PURCHASE NOT ONLY OF THE F-5S BUT OF THE A-4S AND THE M-16 FACILITY. (IT IS NOW CLEAR THAT THE INDONESIANS HAVE OFFICIALLY OPTED FOR THE M-16 FACILITY, WISH TO PROCEED AS QUICKLY AS POSSIBLE, BUT WANT TO RECEIVE SOME INDICATION

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OF FMS CREDIT POSSIBILITIES BEFORE WORKING OUT A FINAL DEAL WITH COL.) WE SHOULD RAISE OUR FMS PROPOSALS/PROJECTIONS TO COVER THE ADDITIONAL REPAYMENT BURDEN IN THE OUT YEARS. WE WOULD APPRECIATE HAVING WASHINGTON'S VIEWS SOONEST.

4. PRESIDENTIAL VISIT. AMBASSADOR ASHARI INFORMED ME THAT PRESIDENT SUHARTO WAS MOST DISAPPOINTED THAT NEITHER PRESIDENT CARTER'S LETTER NOR VICE PRESIDENT MONDALE MENTIONED AN INVITATION FOR HIM TO VISIT WASHINGTON. GENERAL BENNY MURDANI ALSO CLEARLY CONVEYED THIS MESSAGE TO ME ON MAY 11. SHOULD THE HEAVY DEMAND SON PRESIDENT CARTER'S SCHEDULE PERMIT, WE URGE FURTHER CONSIDERATION TO EXTENDING AN INVITATION FOR PRESIDENT SUHARTO TO VISIT WASHINGTON DURING CALENDAR YEAR 1979. HE WILL, OF COURSE, KNOW THAT KRIANGSAK IS GOINGN AND THIS WILL MAKE THE LACK OF AN INVITATION FOR SUHARTO ALL THE MORE DIFFICULT TO TAKE. HOWEVER, AS I MENTIONED TO THE VICE PRESIDENT, IMPORTANT AS I BELIEVE AN INVITATION IS TO OUR BILATERAL RELATIONS, I BELIEVE WE CAN MANAGE THE ADVERSE IMPACT HERE IF AN INVITATON PROVES OUT OF THE QUESTION PROVIDED REPEAT PROVIDED WE CAN GET SOME HEADROOM ON FMS AND CAN SHOW REAL RESPONSIVENESS IN THAT IMPORTANT AREA.

5. LNG. ALTHOUGH INDONESIANS RECOGNIZE THERE ARE STILL SEVERAL

PROCEDURAL HURDLES TO BE OVERCOME, THEY HAVE INTERPRETED DOE'S ACCEPTANCE OF THE PRICE ESCALATOR FORMULA AS AN IMPORTANT BREAKTHROUGH ON AN LNG SUPPLY CONTRACT WITH U.S. WEST COAST UTILITY COMPANIES. WITH INDONESIAN EXPECTATIONS AROUSED, WE WILL FACE A SERIOUS POLITICAL PROBLEM HERE IF THE LNG CONTRACT NOW FALLS THROUGH FOR REASONS THAT THE USG CAN CONTROL. WE RECOGNIZE THAT THE DEPARTMENT'S SCOPE FOR ACTIVITY IS CONSTRAINED BY PROCEDURAL REQUIREMENTS OF DOE'S REGULATORY PROCESS, BUT WE URGE THE DEPARTMENT TO MONITOR THE LNG CASE CLOSELY, TO EXERT WHATEVER INFLUENCE IT CAN FOR EXPEDITIOUS AND FAVORABLE RESOLUTION AND TO KEEP US FULLY APPRISED OF DEVELOPMENTS.

6. EXIM BANK. A VISIT TO INDONESIA BY EXIM BANK CHAIRMAN MOORE WOULD PROBABLY BE THE SINGLE MOST POSITIVE MOVE THE USG COULD
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TAKE AT THIS TIME IN THE ECONOMIC/COMMERCIAL AREA TO BUILD ON THE MOMENTUM DEVELOPED BY THE VICE PRESIDENT'S TRIP. MAJOR PROJECT ACTIVITY, NEARLY DORMANT SINCE THE PERTAMINA CRISIS IN 1975, IS STARTING TO REVIVE. EXIM BANK FINANCIAL PARTICIPATION IN THESE PROJECTS WILL BE SEEN AS RENEWED USG CONFIDENCE IN AND SUPPORT FOR GOI DEVELOPMENT AND WILL ALSO PROVIDE NEEDED STIMULUS TO LAGGING US EXPORTS. THE LAST DIRECTOR-LEVEL VISIT BY EXIM TO INDONESIA WAS NEARLY THREE AND ONE-HALF YEARS AGO.

7. GSP. THE FACT THAT PRESIDENT SUHARTO RAISED THE GSP PROBLEM WITH THE VICE PRESIDENT IS FURTHER EVIDENCE THAT INDONESIA'S INELIGIBILITY TO PARTICIPATE IN THE GSP CONTINUES TO BE A SIGNIFICANT IRRITANT IN OUR BILATERAL RELATIONSHIP. WE REALIZE THAT REMOVAL OF THE GSP SANCTION AGAINST INDONESIA WILL BE DIFFICULT AND PERHAPS RISKY, BUT WE HOPE THAT THE DEPARTMENT WILL KEEP THIS UNDER REVIEW AND PRESS FOR REMOVAL AS SOON AS PRACTICAL. THIS WOULD BE A CLEAR SIGNAL TO THE INDONESIANS AND A CLEAR RESPONSE TO SUHARTO THAT WE ARE ACTUALLY DOING WHAT WE CAN TO INCREASE TRADE.

8. PL-480 TITLE III. THE VICE PRESIDENT'S DISCUSSION WITH SUHARTO OF TITLE III SEEMS TO HAVE OVERCOME THE PREVIOUS RELUCTANCE OF THE GOI TO ENDORSE ANY DONOR INVOLVEMENT IN PROGRAMMING OF COUNTERPART FUNDS BEYOND GENERAL ATTRIBUTION TO DEVELOPMENT. FOLLOW-UP MEETINGS WITH MINISTER OF STATE FOR ECONOMIC AFFAIRS WIDJOJO HAVE RESULTED IN THE DESIGNATION OF BAPPENAS OFFICIALS TO MEET WITH THE MISSION SHORTLY TO EXAMINE THE GOI BUDGETARY AND REPORTING SYSTEM IN ORDER TO DETERMINE THE ADDITIONAL DATA THAT WOULD BE REQUIRED TO MEET TITLE III REPORTING REQUIREMENTS. WIDJOJO SAID, IF WE CAN AGREE UPON A SYSTEM OF ACCOUNTING AND MONITORING FOR TITLE III RUPIAHS, AN EARLY AND SIGNIFICANT TITLE III PROGRAM WOULD BE POSSIBLE. WE WILL PRESS FOR ACHIEVEMENT OF THIS GOAL. WE REQUEST WASHINGTON'S UNDERSTANDING AND ASSISTANCE IN
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GIVING US MAXIMUM FLEXIBILITY IN WORKING OUT A SYSTEM WHICH IS NOT OVERLY ONEROUS AND WHICH ENCOURAGES INDONESIA TO MOVE INTO A SIZABLE TITLE III PROGRAM.

9. AGRICULTURAL ASSISTANCE. THE GOI WAS CLEARLY PLEASED WITH THE VICE PRESIDENT'S INTEREST IN ITS FOOD PROBLEM AND WITH HIS INDICATION THAT U.S. ASSISTANCE WOULD BE EXPANDED FOLLOWING A REVIEW OF THE WORLD BANK REPORT ON THIS SECTOR AND AGREEMENT ON PRIORITIES. THE AID ANNUAL BUDGET SUBMISSION, WHICH IS NOW IN THE FINAL STAGE OF PREPARATION, WILL CONTAIN OUR RECOMMENDATIONS FOR A MAJOR INCREASE IN AGRICULTURAL PROGRAMS THROUGH FY 80.

10. CONCLUSIONS. VICE PRESIDENT MONDALE'S VISIT WAS HANDLED IN A WAY WHICH DID NOT PRODUCE EXAGGERATED EXPECTATIONS. NOTWITHSTANDING, SUHARTO IS NOW REASSURED REGARDING THE INTENTIONS OF THIS ADMINISTRATION BY HIS PERSONAL CONTACT WITH THE VICE PRESIDENT. HE WILL WATCH CAREFULLY TO SEE WHAT WE ARE ACTUALLY ABLE TO DO. GENERAL BENNY MURDANI, ONE OF HIS CLOSE ASSOCIATES, TOLD ME MAY 11 THAT SUHARTO HAD PERSONALLY READ A NUMBER OF SPEECHES BY TOP ADMINISTRATION LEADERS ABOUT THE IMPORTANCE OF ASIA, BUT SAID "THESE ARE ONLY WORDS." NOW HE SEES SUBSTANCE BEHIND THE WORDS. WE HAVE A UNIQUE OPPORTUNITY TO CONSOLIDATE THE ADMINISTRATION'S POSITION WITH INDONESIA, BUT TO MAKE MAXIMUM IMPACT WE NEED TO MOVE QUICKLY. I STRONGLY URGE A COORDINATED EFFORT TO MOVE AHEAD ON AS MANY FIELDS IDENTIFIED ABOVE AS POSSIBLE. IN PARTICULAR, I BELIEVE IT IS IMPORTANT TO BE ABLE TO TELL SUHARTO THAT, AS A DIRECT RESULT OF THE VICE PRESIDENT'S VISIT, ALTHOUGH WE CANNOT, OF COURSE, BE ASSURED OF CONGRESSIONAL APPROPRIATIONS, WE WILL DO EVERYTHING POSSIBLE TO MEET HIS REQUEST FOR AN ADD-ON TO FMS OVER THE NEXT THREE YEARS TO HELP COVER ITEMS WE HAVE ALREADY DISCUSSED WITH HIM.

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